



City of Richmond

Report to Committee

To: Finance Committee

Date: January 13, 2017

From: Jerry Chong
Director, Finance



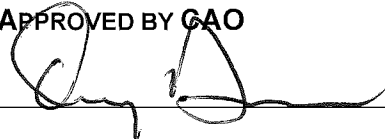
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Re: Analysis of Variable Rates for Residential Class

Staff Recommendation

That the staff report titled Analysis of Variable Rates for Residential Class, dated January 13, 2017 from the Director of Finance, be received for information.

Jerry Chong
Director, Finance
(604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: 
APPROVED BY GAO 	

Staff Report

Origin

At the January 3, 2017 Finance Committee, Council directed staff to *analyze the benefit and the possibility of having more than one residential tax rate to deal with the valuation disparity between strata and single family detached residential properties.*

Analysis

Background

According to the Completed Roll, in 2017 average single family detached (“SFD”) properties increased in value by over 40% while strata condominium units increased on average over 17%. The average increase for the residential class as a whole is 35.21%. Given that the City calculates a single tax rate for the residential class based on the average assessment, there will be a shift in the overall residential tax burden from strata units to SFD properties.

Legislation

Assessment classes in BC are regulated under the Assessment Act. All municipalities are required under Section 197 of the Community Charter to set one tax rate for each assessment class. The Charter allows municipalities to set multiple tax rates within an assessment class to raise revenue for different purposes, but the relationship between the different class rates must be the same for all purposes. The current Charter does not give authority to municipalities to set different rates for sub-classes within an assessment class.

Statistics

The following tables breakdown the residential class assessment into residential strata, SFD, and other. The category of other which includes rental apartment complexes, vacant land, Agricultural Land Reserve (“ALR”) properties, and residential farms make the separation of the residential class more complex.

Total Residential Assessment Value				
	Residential Strata	SFD	Other	Total
2014	14,801,559,102	26,798,544,100	2,864,109,038	44,464,212,240
2015	15,471,757,802	28,773,994,500	3,156,718,964	47,402,471,266
2016	17,341,268,006	33,027,122,200	3,058,920,264	53,427,310,470
Est 2017	21,928,327,006	47,568,845,600	3,851,259,098	73,348,431,704

Percentage of Total Residential Assessment				
	Residential Strata	SFD	Other	Total
2014	33.29%	60.27%	6.44%	100.00%
2015	32.64%	60.70%	6.66%	100.00%
2016	32.46%	61.82%	5.73%	100.00%
Est 2017	29.90%	64.85%	5.25%	100.00%

Since 2014, total SFD values in Richmond have increased by 4.58% from 60.27% of the residential class value to 64.85% while residential strata values have decreased by 3.39% from 33.29% of the residential class value to 29.90%.

The following table provides the average change in value per residential sub-class:

Average Value Per Residential Sub-Class			
	Residential Strata	SFD	Other
2014	406,123	939,311	1,295,977
2015	410,795	1,008,269	1,585,494
2016	438,964	1,160,068	1,512,071
Est 2017	534,798	1,667,152	1,896,238

In the years since 2014, on average, a SFD property increased in value by \$727,841 from \$939,311 to \$1,667,152 or 77.49% while residential strata units increased in value by \$128,675 from \$406,123 to \$534,798 or 31.68%.

Multiple Residential Tax Rates

There are a number of arguments for and against multiple residential rates. Over the years, a number of municipalities have suggested multiple residential rates in order to address taxation issues in their municipality.

In 2003, the City of Parksville brought forward a resolution to the Union of BC Municipalities (“UBCM”) requesting the Province to review variable residential tax rates because they felt it was unfair for strata units to have to pay the same rates as single family detached homes. Their argument at the time was that strata units are responsible for more costs such as the operations, maintenance and replacement of infrastructure within their properties and therefore, the City would like to look at the possibility of charging a lower rate to strata units. This resolution was not endorsed by UBCM members.

In 2016, The City of Langley brought forward a resolution for “Varied Tax Rate for the Residential Class” to UBCM. Similar to the issue in Richmond, this resolution addressed the fact that assessment values for SFD homes have increased significantly more than strata properties in the past years. The City of Langley’s resolution was to have the Province of BC amend the Assessment Act and the Community Charter to allow the residential class to be split into two distinct residential classes so that a different rate may be applied to each type of

residential property to more equitably share the tax burden between single family residential properties and the multifamily residential strata properties.

This resolution was not endorsed by UBCM members and the comment from the UBCM Resolutions Committee was that the potential impact is far reaching and could trigger a proliferation of classes and sub-classes. Resolutions for variable residential rates have been submitted to UBCM in 1988, 1995, 2002, 2003, and 2016 with little support from UBCM membership.

There are many arguments in support or against multiple residential tax rates. Some of the arguments are:

For:	Against:
<ul style="list-style-type: none"> • Multiple rates allow municipalities to redistribute tax burden as Council deems fair for their community. It will enable the City to help mitigate extreme fluctuations in property taxes to the individual property owners. • Since SFDs have increased in value significantly more than strata properties, multiple rates would allow each sub-class to maintain their tax burden ratio from the prior year and not receive any significant tax increases or decreases. • Assessment value increases are gains on paper and cannot be realized until the future when the property is eventually sold. Seniors on fixed income will find it difficult to pay current tax increases. If Council can set variable rates, it would help reduce taxes for seniors in SFDs. • Maintaining or increasing the tax burden to strata properties would have little impact to this subclass as most of the new growth in the City is in strata units. With additional growth, strata units should be taking on a larger share of the tax burden since the burden can be spread amongst more units. • Multiple rates can help many working families who have been in the City for over 20 years. Many have purchased bungalows at the time based their affordability for working class families. The recent increase in value for older bungalows and resulting increase in tax burden will be extremely difficult for these owners who are still dependent on their employment income and are not old enough for the regular tax deferral program and no longer have children in school to qualify for the family with children deferral program. 	<ul style="list-style-type: none"> • Once the precedent is set for multiple tax rates, Council may be faced with increasing number of requests from different lobby groups, all seeking special tax treatment for their cause or for their neighbourhood. Multiple tax rates cannot alleviate the valuation disparity within neighbourhoods. • SFD property values have increased significantly, giving these property owners added wealth. Even though the wealth will not be realized until the property is sold, the property owner has significantly increased their net worth. Since property tax is a tax on wealth, more expensive properties should pay more in taxes. Seniors living in SFDs on fixed income have the option of deferring property taxes until they realize the gain upon sale of the property. • In trying to redistribute tax burden between SFD and strata properties, additional inequities will be created and unintended parties may reap the benefit or be penalized: <ul style="list-style-type: none"> ○ SFD property values have significantly appreciated because there have been sales of similar properties in the neighbourhood at higher prices. If the tax rate was set so that SFDs pay based on a reduced tax burden, the new purchasers who were instrumental in setting the higher market prices will also pay less in taxes. ○ With the high price of detached homes, many strata units are occupied by young families and working couples who may not have the financial resources to pay higher taxes. • Strata property owners have lost value in the real estate market in comparison to SFDs. In 2014, SFDs were 2.32 times the value of an average strata unit

	but in 2017, that ratio increased to 3.12 times. Adding an additional tax burden would further erode their net worth in relation to the local housing market.
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Currently, there is no authority to set variable tax rates within the residential class. Without endorsement from UBCM members, the City would need to approach the Province for special authority that is Richmond specific. This could take years of lobbying, similar to the authority for Richmond's City Centre Area Transitional tax exemption.

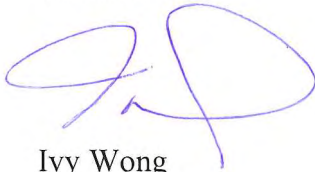
Based on the preceding analysis staff do not recommend proceeding with more than one residential tax rate at this point in time. With the complexity of having other types of residential properties such as vacant, ALR, farm and rentals, included as subclasses in the residential class, the determination of equity within the class becomes even more difficult.

Financial Impact

None

Conclusion

That the report titled Analysis of Variable Rates for Residential Class be received for information.



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